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Fiscal Note

Fiscal Services Division

SF 295 – Property Tax Changes (LSB 1481HV)
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Fiscal Note Version – Amendment S-3166 as passed by the House

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Description

The House amendment **S-3166** to **Senate File 295** is a strike-after amendment. The amendment relates to property assessment, property tax, school finance, county and city budgeting, and creates a new income tax credit. The House amendment has the following provisions with fiscal impacts:

- Property classified as commercial or industrial is provided a statutory rollback percentage of 95.0% for assessment year (AY) 2013 (AY 2013 = FY 2015) and that rollback decreases by five percentage points each year until it reaches 80.0% for AY 2016. A rollback is the percent of a property's assessed value that is subject to property tax. Beginning AY 2017, the statewide taxable value of commercial property is allowed to grow no more than 2.0% each assessment year due to revaluation of existing property. The current annual revaluation growth limit is 4.0%. Also beginning AY 2017, industrial property is assigned the rollback value calculated for commercial property.

- Beginning AY 2013, railroad property is assigned the rollback value of commercial property.

- Beginning AY 2013, the annual revaluation growth limit is reduced from its current 4.0% to 2.0% for property classified as agriculture or residential.

- Beginning AY 2017, the allowed revaluation growth rates of commercial, residential, and agricultural property are linked, with a provision that none of those property classes may grow due to revaluation at a higher rate than any other of the classes.

- Beginning AY 2014, most commercial property utilized for human habitation (apartments, nursing homes, *etc.*) becomes a new property classification called multiresidential. This new class is assigned a rollback of 90.0% for AY 2014 and the rollback decreases annually to 60.0% for AY 2017. Starting AY 2018, the multiresidential class is assigned the residential rollback each assessment year.

- Beginning AY 2014, the assessment basis for telecommunications property is changed to the same basis as commercial property, although the value of items such as poles and lines is specifically included in the assessment process. In addition, telecommunications property is assigned a rollback of 80.0% for AY 2013 and a rollback of 60.0% for AY 2014 and after.

- Establishes a standing appropriation to reimburse all levels of local government for the reduced tax revenue associated with the forced commercial and industrial rollback to 80.0%. Beginning with values for AY 2017 (FY 2019), the annual appropriation is limited to no more than the reimbursement appropriation necessary in FY 2018. The appropriation is made exempt from the uniform appropriation reduction provisions found in **Iowa Code section 8.31(5)** (Governor's authority for uniform appropriation reductions).

- Increases the School Aid foundation percentage from the current 87.5% of the state cost per-pupil funding level to 95.0%. The increase occurs in stages from FY 2015 through FY 2018. When fully implemented, this adjustment will shift 7.5 percentage points of the state cost per-pupil funding level from property taxes to the State General Fund.

- Repeals the existing July 1, 2013, sunset provision for the Property Assessment Appeal Board (PAAB) and makes changes to the procedure for property assessment protests, notifications, and hearings.

- Provides restrictions on the ability of counties and cities to increase the amount of property tax revenue they collect. The growth in the amount of property tax revenue collected is restricted to no more than the rate of inflation, plus an additional amount for new construction value. The inflation growth percentage is further restricted to no more than 4.0%, should inflation exceed 4.0% in a year. The restriction does not apply to portions of county and city property tax rates used to finance debt, employee benefits, and capital projects. The city or county may exceed the growth limit for two years if approved by voters.

- Makes changes to the Taxpayer Trust Fund. Under current law, the Taxpayer Trust Fund receives the first $60.0 million each year of the Economic Emergency Fund excess after the Cash Reserve Fund and Economic Emergency Fund balances are at the statutory maximums. This amendment removes the $60.0 million limit and instead transfers all excess surplus reserve funds to the Taxpayer Trust Fund.

- Establishes a new individual income tax credit first effective for tax year 2013. A new Taxpayer Trust Fund Tax Credit Fund is created and balances in the Taxpayer Trust Fund are transferred to the Taxpayer Trust Fund Tax Credit Fund beginning in FY 2014. The maximum tax credit per taxpayer each tax year is calculated by dividing the amount transferred to the Taxpayer Trust Fund Tax Credit Fund by the number of eligible individuals from the previous tax year. This amendment defines "eligible individual" as a person who files an individual income tax return pursuant to **Iowa Code section 422.13**. The result of this math equation becomes the maximum tax credit that may be claimed on a tax return. The tax credit is not refundable; meaning the value of the tax credit to each taxpayer is limited to no more than the individual's Iowa income tax liability for that tax year. The new tax credit reduces net General Fund revenue, beginning in FY 2014. The General Fund is reimbursed through a transfer from the Taxpayer Trust Fund Tax Credit Fund. Money remaining in the Taxpayer Trust Fund Tax Credit Fund is transferred back to the Taxpayer Trust Fund at the end of the fiscal year. This provision takes effect on enactment and applies retroactively to tax year 2013 and after.

Background – Taxpayer Trust Fund

The Taxpayer Trust Fund was created during the 2011 Legislative Session to finance future tax reductions and first received revenue in FY 2013. Under current law, the fund is eligible to receive up to $60.0 million annually from the Economic Emergency Fund excess after the reserve funds are fully funded. Moneys in the Trust Fund can only be used pursuant to appropriations made by the General Assembly for tax reductions. The amount the Taxpayer Trust Fund can receive in a given fiscal year is limited to $60.0 million or the difference between the actual net General Fund revenue for the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for that fiscal year, whichever is less. For example, the amount the fund receives in FY 2013 is calculated by subtracting the Adjusted Revenue

Estimate for the FY 2012 budget from the actual year-end net General Fund receipts for FY 2012.

Assumptions

Property Tax Base Projection – FY 2014 through FY 2024

- Property assessed value growth will increase, due to revaluation of existing property and due to net new construction, by the annual percentages provided in a table at the end of this document.
- From FY 2014 through FY 2024, nonschool local governments will achieve annual revenue increases from property tax equal to the 12-year average experienced by each level of government. Those historic property tax annual revenue increases are:
  - Cities = 4.8%
  - County (Urban) = 5.3%
  - County (Rural) = 4.1%
  - Other Local Governments = 5.5%
- The school district finance allowable growth rate will be set by the General Assembly at 2.0% each year beginning in FY 2014. For the base scenario, the annual property tax revenue for schools is established using the projected property value growth and the 2.0% allowable growth rate. Additionally, enrollments and weightings for FY 2015 through FY 2018 are held static at the FY 2014 levels.
- The amount of statewide property tax value that is contained in Tax Increment Financing (TIF) increments will increase 5.1% per year, a percentage equal to its average growth from FY 2007 through FY 2013.

Property Tax Projection – FY 2014 through FY 2024

- With the exception of telecommunications property, property assessed value growth will be the same as the base projection.
- Due to the change in the assessment basis, telecommunications property assessed value will be reduced by $497.9 million, beginning AY 2014.
- The statewide assessed value of multiresidential property is assumed to equal $4.0 billion in AY 2012 and that amount is assumed to grow at the rate of commercial value each assessment year.
- From FY 2014 through FY 2024, nonschool local governments will achieve annual revenue increases that are somewhat reduced from the base projection. The projection assumes that as the tax rate increase necessary to maintain the historic revenue growth gets larger, a smaller percentage of the revenue will be recovered through rate increases. The result will be greater property tax reductions for taxpayers and larger nonschool local government revenue reductions in later years.
- City and county revenue increases will further be muted by the property tax budget limitation provisions as locations where property values appreciate faster than the rate of inflation will not be able to capture some of the additional property tax revenue that would otherwise result from growth in the tax base.
- The school district finance allowable growth rate will be set by the General Assembly at 2.0% each year beginning in FY 2014. The annual property tax revenue for schools is based on the projected growth in taxable value and 2.0% annual allowable growth. Additionally, enrollments and weightings for FY 2015 through FY 2018 are held static at the FY 2014 levels. For the portions of school finance that are controlled by the school aid formula, this means that the provisions of the amendment reducing taxable value

growth necessarily do two things; they increase the appropriation for state school aid, and they increase school district tax rates.

- The provision that increases the school aid foundation percentage from 81.5% to 95.0% decreases property tax rates and increases the appropriation for state school aid.
- For portions of school district finance that are not controlled by the school aid formula the tax rates for debt and the Physical Plant and Equipment Levy (PPEL) are considered fixed and school tax rates do not increase as taxable value grows more slowly than the base projection, while tax rates for the management and Instructional Support levies will increase due to reductions in valuations,
- Each year, revenue from TIF increments will equal the base scenario TIF revenue projection.

Taxpayer Trust Fund Tax Credit

- The new Taxpayer Trust Fund Tax Credit Fund and the existing Taxpayer Trust Fund are separate state funds. To simplify the discussion, they are treated below as one fund and referred to collectively as the Taxpayer Trust Fund.
- The March 2012 General Fund estimates of the Revenue Estimating Conference (REC) for FY 2013 and FY 2014 are used in this analysis. For FY 2015, General Fund revenue is assumed to equal 104.3% of the FY 2014 REC estimate. The REC estimate for FY 2013 equals $6,637.0 million and the estimate for FY 2014 equals $6,870.6 million. For this fiscal note, FY 2015 revenue is projected to equal $7,169.1 million.
- Appropriation adjustments for FY 2013 will equal $46.5 million and expenditures from the Economic Emergency Fund for the Executive Council Performance of Duty standing unlimited appropriation will total $35.6 million in FY 2014 and $34.5 million in FY 2015.
- Expenditure limitations under current law for FY 2014 and FY 2015 will equal $7,433.8 million and $8,041.4 million, respectively.
- The base scenario assumes the General Assembly will not appropriate at the full expenditure limitation level, appropriating instead $6,582.4 million for FY 2014 (5.0% above the FY 2013 estimated level) and $6,865.7 million for FY 2015 (4.3% above the FY 2014 estimated level). An adjustment for $5.0 million in assumed reversions is included for FY 2014 and FY 2015.
- Assumes that under current law, the balance in the Taxpayer Trust Fund will grow from $60.0 million in FY 2013 to $120.0 million in FY 2014 and to $180.0 million in FY 2015. Under amendment S-3166, $856.9 million in reserve fund surplus is projected to flow to the Taxpayer Trust Fund in FY 2014 and $207.2 million in FY 2015.
- With the projected $916.9 million in the Taxpayer Trust Fund ($60.0 million from FY 2013 and $856.9 million from FY 2014) and an estimated 2.1 million taxpayers, the estimated maximum tax credit per taxpayer will equal $437 for tax year 2013 (impacting FY 2014). For tax year 2015, the projected maximum tax credit is $203. Since some taxpayers will not have sufficient tax liability to benefit from the maximum tax credit, the projected total of all tax credits utilized in FY 2014 is $698.6 million and $324.2 million in FY 2015. The difference between the amount available in a year and the amount claimed remains in the Taxpayer Trust Fund to fund tax credits in the next year. The new tax credit is available any year where the balance in the Taxpayer Trust Fund is $30.0 million or higher.

Property Assessment Appeal Board (PAAB)

- The PAAB will continue to be funded by an allocation from the Department of Revenue and the PAAB will continue to operate with the same staffing and use of resources as in the past, and the costs will grow by 1.0% annually.

- If the PAAB is allowed to sunset, some of the appeals would shift to the district court. The number that would shift has not been determined.
- The filing deadline change and the option to waive the 30-day notice will have a minimal impact on board operations.

Fiscal Impacts

Property Tax Provisions - Impact on the State General Fund

The property tax provisions will have three direct impacts on State General Fund appropriations and the total projected impact is detailed in **Table 1**.

1. A new State General Fund appropriation will be created to replace all reduced local government revenues that result from the forced rollback for commercial and industrial property, beginning FY 2015 and continuing through FY 2018. For FY 2019 and after, the appropriation continues, but the total amount of the appropriation may be no more than the FY 2018 level.
2. Any decrease in taxable value that is not reimbursed through the appropriation above will result in an increase in the State School Aid appropriation of $5.40 per thousand of reduced taxable valuation. This impact is the result of the additional rollbacks for residential, agricultural, and railroad property (moving from 4.0% to 2.0%), as well as the changes to the taxable value of multiresidential and telecommunications property.
3. The increase in the school aid foundation level from 87.5% to 95.0% will increase the State General Fund appropriation for school aid.

Table 1
State General Fund Appropriation Increases
Dollars in millions

Appropriation	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
New State C/I Reimbursement Appropriation	$77.7	$145.0	$226.1	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0
School Aid Gen. Fund Appropriation Increase	77.0	161.6	246.9	335.7	365.1	387.7	420.2	444.2	481.6	510.3
Total General Fund Impact	$154.7	$306.6	$473.0	$645.7	$675.1	$697.7	$730.2	$754.2	$791.6	$820.3

Property Tax Provisions - Impact on Local Government Revenue

1. Nonschool local governments will experience reduced taxable value through six pathways:
   a. The forced rollback for commercial and industrial property from its current projected rollback level of 100.0% to 80.0%. From FY 2015 through FY 2018, the revenue reduction will be 100.0% reimbursed through the new state appropriation. Due to the 100.0% reimbursement provision, nonschool local government tax rates and property tax revenue should not be impacted.
   b. After FY 2018, local governments may be impacted by the reduction in allowed commercial revaluation growth from the current 4.0% per year to 2.0% per year and from tying the industrial rollback to the commercial rollback. If commercial property grows by more than 2.0% per year due to revaluation, then local governments are impacted. If commercial revaluation does not average 2.0% per year, then the new 2.0% growth limitation does not have an impact and the 80.0% commercial and industrial rollback will begin to increase towards 100.0%.
   c. The taxed value of railroad property will decrease in line with the commercial rollback.

d. The taxed value of the new multiresidential classification will be reduced as that class of property transitions to the residential rollback.
e. The taxed value of telecommunications property will be reduced as the assessment basis is changed and as the property transitions to a rollback of 60.0%.
f. The taxed value of residential and agricultural property will be lower due to the reduction in the allowed annual revaluation growth rate from 4.0% to 2.0%.

2. The taxable value reductions associated with items *b* through *f* above will result in higher tax rates in instances where local governments have the ability and are willing to raise rates to compensate for the reduced taxable value. In instances where they are not willing or are not able to raise rates, local government revenue reductions will result.
3. School districts will see the same reduced taxable value issues as presented in number 1 above. However, the majority of school finance is revenue restricted, not rate restricted, so the impact on tax rates and tax revenue is different than nonschool local governments.
    a. The taxable value reductions for the portion of school finance that is dictated by the established allowable growth rate percent and through the school aid formula will result in increased State General Fund appropriations in the amount of $5.40 per thousand of reduced taxable value. All School Aid Formula taxable value reductions besides the $5.40 per thousand will result in higher school property tax rates sufficient to replace all remaining reduced revenue.
    b. For the portion of school finance not dictated by the School Aid Formula, the reduced taxable value that is not reimbursed by the state will result in revenue reductions for school districts. This is the result of the assumption that non-School Aid Formula property tax rates are fixed and will not increase as taxable value decreases.
    c. The increase in the school foundation level from the current 87.5% to 95.0% will reduce school property tax revenue and replace it dollar for dollar with State General Fund appropriated dollars. This will lower school property tax rates but not lower school revenue.

Table 2 provides the projected property tax reductions by the source of the reduction. The first two items are the result of the new and increased State General Fund appropriations, and the third and fourth items are the result of unreimbursed reductions in local government tax revenue**.** **Table 3** distributes the projected property tax reduction among the various classes of property. **Table 4** provides a projected distribution of the unreimbursed reductions in local government revenue.

Table 2

Statewide Property Tax Reductions

Dollars in millions

Property Tax Reductions Due to:	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
New State C/I Reimbursement Appropriation	$77.7	$145.0	$226.1	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0
School Aid Gen. Fund Appropriation Increase	77.0	161.6	246.9	335.7	365.1	387.7	420.2	444.2	481.6	510.3
School Reduction for Other Levies	5.1	11.1	16.7	22.8	29.4	36.1	43.1	50.2	58.5	67.1
Non-School Local Gov. Revenue Reductions	0.4	4.1	8.7	19.5	40.5	54.8	80.1	106.9	147.7	176.0
Total Property Tax Reduction	$160.2	$321.8	$498.4	$688.0	$745.0	$788.6	$853.4	$911.3	$997.8	$1,063.4
% Reduction	3.0%	5.8%	8.6%	11.4%	11.8%	12.0%	12.4%	12.7%	13.3%	13.5%

Table 3

Property Tax Reduction by Property Class

Dollars in millions

Property Class	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Residential	$52.1	$100.5	$159.2	$224.8	$248.1	$294.7	$327.7	$395.9	$441.6	$516.3
Agricultural	16.9	32.5	52.4	73.3	80.8	93.1	101.7	116.1	128.3	146.6
Commercial	58.1	115.4	180.0	246.5	257.6	234.5	253.2	233.1	254.6	232.1
Multiresidential	7.5	14.9	31.2	48.1	66.0	79.9	85.9	86.5	93.8	94.9
Industrial	12.5	25.3	39.9	56.0	58.1	54.1	57.7	53.9	58.7	54.0
Rail	2.1	4.1	6.4	8.8	9.0	8.2	8.6	7.9	8.4	7.7
Utility/Other	0.1	0.0	0.2	0.3	-0.3	-0.7	-1.4	-1.8	-2.3	-2.6
Telecommunications	10.5	28.9	29.1	30.2	27.5	26.0	23.4	22.4	20.1	18.9
Gas/Electric	0.1	-0.2	-0.2	-0.1	-2.4	-3.9	-6.2	-7.2	-9.2	-10.3
Rounding Adjustment	0.3	0.4	0.2	0.1	0.6	2.7	2.8	4.5	3.8	5.8
Total	$160.2	$321.8	$498.4	$688.0	$745.0	$788.6	$853.4	$911.3	$997.8	$1,063.4

Table 4

Statewide Revenue Reduction by Local Government Category

Dollars in millions

Local Government Revenue Reductions *	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
City	$0.2	$1.7	$2.6	$7.3	$16.7	$20.7	$32.3	$44.7	$62.1	$68.9
County Urban	0.1	0.8	1.2	3.5	8.3	10.5	16.5	22.9	31.8	35.6
County Rural	0.1	1.1	3.1	6.2	9.9	15.0	17.9	23.8	32.6	43.7
School	5.1	11.1	16.7	22.8	29.4	36.1	43.1	50.2	58.5	67.1
Other Authorities	0.1	0.6	1.8	2.5	5.6	8.5	13.4	15.5	21.3	27.9
Total All Prop Tax $	$5.6	$15.3	$25.4	$42.3	$69.9	$90.8	$123.2	$157.1	$206.3	$243.2

* Revenue reductions equal property tax reductions minus State reimbursements.

Property Tax Provisions - Impact on Tax Increment Financing

Tax Increment Financing (TIF) involves the diversion of property tax dollars that would under conventional circumstances be used to fund schools and other levels of local government. Instead, a TIF agreement directs the property taxes to a special revenue fund of the TIF authority (usually a city or county) where it is used to repay debt associated with Urban Renewal activities (**Iowa Code chapter 403**) of that city or county. Four provisions of this amendment could negatively impact TIF arrangements.

1. The provision that reduces the allowed revaluation growth for residential property from 4.0% per year to 2.0% per year, beginning AY 2013. This provision will result in less taxable residential value than under current law, so a given TIF area with residential value included will generate less TIF revenue, all else being equal. TIF areas in the state contain no railroad or telecommunications value and very little agricultural value, so taxable value changes to those classes of property will have no impact.
2. The creation of a multiresidential property class and transitioning that class to the residential rollback will result in lower taxable values in TIF areas containing that type of property.
3. The provision that caps the State General Fund reimbursement for reduced commercial and industrial value at the FY 2018 level may mean that some tax revenue reductions associated with commercial and industrial rollbacks will not be fully reimbursed

beginning FY 2019. If the reduction is not fully reimbursed, revenue may be less than projected from TIF areas that contain commercial and industrial value.

4. The increase in the school foundation level from 87.5% to 95.0% will reduce overall school property tax rates, thus reducing the revenue generated by a given level of TIF increment value.

The issues above will not be abrupt and TIF finance will have several fiscal years to adjust to the altered valuation and taxation system. Several provisions of current law and this amendment will act to ameliorate the negative impacts on TIF finance. Those counterbalancing provisions include:

1. Most TIF arrangements are not fully obligated for all projected future revenue. That is, some cushion is allowed so that 100.0% of all projected revenue going forward will not be necessary to repay existing obligations.
2. Several provisions of this amendment will result in higher property tax rates than would be the case under current law, particularly the provisions related to lower allowed taxable value growth for residential, multiresidential, telecommunications, agricultural, and railroad property. A change that results in higher tax rates compared to current law will replace some of the revenue reduction that would otherwise result from lower taxable values.
3. TIF areas with unused increment may access some or all of the unused increment to make up any revenue shortfall.
4. Current law allows all rollback impacts to first reduce the taxable value of the TIF base before impacting the TIF increment. TIF areas with existing frozen base values may access that value in order to protect the TIF revenue stream.

Property Tax Provisions - Future Impact of the Three-Class Tie

For the three-class tie to have any impact, one or more of the tied classes must have a calculated rollback of 100.0%. Revaluation history for residential and commercial indicates that those two classes will not likely reach 100.0% in the short-term or medium-term, given the 2.0% allowed growth rate contained in this amendment.

However, the productivity value of agricultural property can fall very quickly if the price and/or the volume of corn and soybeans decrease significantly. While current Legislative Services Agency projections expect sufficient farm productivity to allow an agricultural rollback through FY 2024 and beyond, significant crop issues in 2013 and 2014 could result in a 100.0% agricultural rollback sooner than anticipated, which in turn could limit local government taxable value growth through revaluation to less than 0.0% per year until the productivity formula allows another agricultural rollback to develop.

Taxpayer Trust Fund Tax Credit

The new tax credit created in the amendment is estimated to provide a nonrefundable tax credit of $437 for approximately 1.6 million taxpayers in tax year 2013 (impacting FY 2014), and $203 per eligible taxpayer in tax year 2014 (impacting FY 2015). The tax credit will reduce income taxes paid by Iowa taxpayers by the following projected amounts:

- FY 2014 = $ -698.6 million
- FY 2015 = $ -324.4 million

The tax credit will reduce State General Fund revenue by the same amounts. The tax credit will further reduce taxes paid and state tax revenue in any year where the balance in the Taxpayer Trust Fund is $30.0 million or higher. The State General Fund will be reimbursed in the fiscal year of the tax revenue reduction by a transfer from the Taxpayer Trust Fund equal to the income tax revenue reduction.

The following table summarizes the impact of the new tax credit, as well as the appropriation increases associated with the property tax and school finance changes, on the State General Fund, the balance in the Taxpayer Trust Fund, and the overall reserve balance of the state.

Table 5
Impact of Amendment S-3166 to SF 295
on the General Fund and Taxpayer Trust Fund
(Dollars in Millions)

	FY 2014			FY 2015		
	Current Law	S-3166	Change	Current Law	S-3166	Change
Funds Available						
General Fund Revenue	$ 6,870.6	$ 6,172.0	$ - 698.6	$ 7,169.1	$ 6,844.9	$ - 324.2
Taxpayer Trust Fund Transfer	0.0	698.6	698.6	0.0	324.2	324.2
Economic Emergency Transfer	796.9	0.0	- 796.9	944.1	0.0	- 944.1
Total Funds Available	$ 7,667.5	$ 6,870.6	$ - 796.9	$ 8,113.2	$ 7,169.1	$ - 944.1
Expenditures						
Baseline Appropriations	$ 6,582.4	$ 6,582.4	$ 0.0	$ 6,865.7	$ 6,865.7	$ 0.0
S-3166 Appropriations	0.0	0.0	0.0	0.0	154.7	154.7
Gen. Fund End. Bal. - Surplus	$ 1,085.1	$ 288.2	$ - 796.9	$ 1,247.5	$ 148.7	$ - 1,098.8
Taxpayer Trust Fund End. Bal.	$ 120.0	$ 218.3	$ 98.3	$ 180.0	$ 101.3	$ - 78.7
Ending Balance Change *			$ - 698.6			$ - 1,177.5

* Change in the sum of Cash Reserve, Economic Emergency, Taxpayer Trust Fund, and General Fund reserve surplus.

Additional Fiscal Considerations

Revenue Feedback - From the perspective of the State General Fund, the FY 2014 and FY 2015 impact of the new income tax credit and the property tax and school finance changes can be financed by lowering the state reserves by a projected $1,177.5 million by the end of FY 2015. This has the potential to create positive revenue feedback as those dollars are spent, invested, or saved by the taxpayer since the revenue reduction and appropriation increases do not have to be offset by expenditure reductions or revenue increases somewhere else. The carry forward reduction of $1,177.5 million over two years will represent approximately 0.47% of Iowa disposable (after tax) income across the two years. In FY 2012, the Iowa General Fund received approximately $63.2 million for every $1,177.5 billion in disposable income.

Over the medium-term and long-term, State General Fund revenues equal state General Fund expenditures. Once the state reserves are reduced to their statutory 10.0% limit, the fiscal impact of the tax credit and appropriation increases in future years will have to be offset by appropriation reductions or other revenue increases, a situation that will limit the possibility of further positive revenue feedback from the tax reductions.

Over the medium-term and long-term, local governments also expend no more than they receive in revenue. The taxable value reductions contained in this amendment will result either in decreased local government expenditures, increased property tax rates, or increased local government revenue from sources other than property tax. To properly evaluate the revenue feedback associated with the property tax reductions, the negative impact of the local government finance response to the taxable value reduction would have to be considered.

Telecommunications Assessment - The Department of Revenue notes that the change in assessment methodology will require additional state resources to adequately assess the telecommunications property, as the state does not currently have to assess actual telecommunication property land and buildings. The department estimates that the annual added cost will equal $416,000. If the state resources are not available, then the task will fall on local assessors.

Property Assessment Appeal Board - If the PAAB is allowed to sunset as provided under current law, the cost of the board's operation would be eliminated. Repealing the sunset will increase state expenditures by $874,000 in FY 2014 and $883,000 in FY 2015.

Sources

Department of Management – historical property tax files
Legislative Services Agency School Aid Formula Projections
Legislative Services Agency property tax projections
Iowa State Association of Counties

/s/ Holly M. Lyons

April 22, 2013

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

History and Projected Statewide Net New Construction and Revaluation Percents by Class

	Assessment Year	Residential Net New Construction	Residential Revaluation	Agricultural Net New Construction	Agricultural Revaluation	Commercial Net New Construction	Commercial Revaluation	Industrial Net New Construction	Industrial Revaluation
History	AY 1999	2.39%	7.09%	0.74%	7.91%	4.45%	5.36%	6.96%	0.28%
History	AY 2000	2.74%	1.01%	0.34%	-0.20%	4.37%	1.27%	4.72%	0.84%
History	AY 2001	2.61%	10.48%	0.33%	1.46%	3.66%	6.52%	3.62%	0.94%
History	AY 2002	2.47%	0.57%	0.52%	-0.21%	3.20%	-0.03%	2.98%	0.94%
History	AY 2003	2.81%	6.05%	0.40%	-18.64%	3.36%	4.88%	2.73%	-0.78%
History	AY 2004	3.06%	1.03%	0.34%	-0.12%	2.30%	-0.03%	3.73%	0.06%
History	AY 2005	3.15%	7.44%	0.60%	3.03%	2.78%	5.14%	2.81%	-0.29%
History	AY 2006	3.12%	0.97%	0.63%	-0.11%	3.28%	0.66%	2.90%	-1.49%
History	AY 2007	2.94%	7.49%	0.93%	15.43%	2.72%	4.46%	5.10%	0.08%
History	AY 2008	2.30%	0.56%	0.82%	-0.14%	2.38%	0.14%	5.97%	0.76%
History	AY 2009	1.57%	1.07%	0.80%	47.28%	2.76%	0.61%	6.58%	0.37%
History	AY 2010	1.38%	0.53%	0.35%	-0.17%	1.36%	-0.27%	3.29%	3.93%
History	AY 2011	1.24%	-0.55%	0.33%	24.74%	1.42%	-0.88%	7.32%	0.20%
History	AY 2012	1.29%	-0.08%	0.38%	-0.16%	1.37%	-0.17%	5.57%	-0.84%
Projection	AY 2013	1.40%	2.25%	0.40%	37.00%	1.75%	0.75%	4.75%	0.25%
Projection	AY 2014	1.80%	0.20%	0.40%	-0.15%	2.25%	0.25%	4.75%	0.25%
Projection	AY 2015	2.00%	4.00%	0.40%	8.00%	2.25%	2.00%	4.75%	0.25%
Projection	AY 2016	2.00%	0.40%	0.40%	-0.15%	2.25%	0.25%	4.75%	0.25%
Projection	AY 2017	2.00%	5.00%	0.40%	8.00%	2.50%	3.50%	4.75%	0.25%
Projection	AY 2018	2.00%	0.60%	0.40%	-0.15%	2.50%	0.25%	4.75%	0.25%
Projection	AY 2019	2.25%	5.25%	0.40%	0.00%	2.50%	4.00%	4.75%	0.25%
Projection	AY 2020	2.25%	0.80%	0.40%	-0.15%	2.90%	0.25%	4.75%	0.25%
Projection	AY 2021	2.50%	6.00%	0.40%	0.00%	2.90%	4.25%	4.75%	0.25%
Projection	AY 2022	2.50%	1.00%	0.40%	-0.15%	2.90%	0.25%	4.75%	0.25%